

## **GASB 34 & 35 Implementations - Questions and Answers relating to colleges and universities**

1) Q. GASB 34 requires that information about long-term liabilities be shown in the notes to the financial statements. Compensated absences are long-term liabilities that should be included in this note and should include beginning and year-end balances, increases and decreases, etc. How are the increases and decreases calculated?

A. The colleges and universities should already have a system in place to calculate their beginning and ending balances for compensated absences. To calculate the decreases or deductions, exclude employees who had beginning and ending leave balances of over 300 hours. Include as deductions: leave taken for the employees who had a beginning balance of less than 300 hours or an ending balance of less than 300 hours. This calculation would include terminations and retirees because they will have an ending balance of less than 300 hours. Since you now have three of the four figures in the equation, additions can be a calculated amount (additions = ending balance + deductions – beginning balance).

2) Q. What is the depreciation policy for library books?

A. See Q & A 19 for the library book capitalization policy.

3) Q. Presently, summer school revenues and expenditures are deferred until the next fiscal year. What are the procedures for handling summer school to satisfy GASB 34 accrual requirements?

### **Revised answer**

**A. The most obvious GAAP application is counting days. If an institution decides to use an alternative method, sufficient evidence must exist to show that the alternative method will result in materially fairly stated financial statements.**

4) Q. Currently an institution's threshold for capitalization may be less than the minimum required by the state or an institution may track items less than the minimum for insurance purposes. Is it proper to continue to account for those items as assets or should they be expensed?

A. They should be expensed. If an institution wants to continue tracking the items for other purposes, that is a decision of the facility.

5) Q. Will the state have a standard depreciation method and guidance for the useful lives of assets?

A. The Office of Statewide Reporting and Accounting Policy (OSRAP) has developed a guide for capitalization and depreciation of capital assets. The main policy change described in this guide is the change in the capitalization threshold for movable property from \$250 to \$5,000. This policy requires all movable property acquisitions of \$5,000 and above to be capitalized and depreciated instead of expensed in their budget categories. The guide for capitalization and depreciation of capital assets is listed on

OSRAP's website under "issue papers" (#13). The straight-line method is recommended for depreciation of capital assets.

6) Q. How do I determine when to begin depreciating a new building or renovation?

A. Depreciation should begin when the building is occupied and the building or renovation is substantially complete. In some cases, professional judgment should be used to determine if a renovation is substantially complete. A full year of depreciation is taken in the first year. When the item is transferred or disposed of, the remaining depreciation is taken in the year of disposition.

7) Q. Will universities prepare cash flow statements?

Universities are required to complete a cash flow statement. OSRAP will send an AFR packet containing the format for the statement of cash flows to the universities. The university system should consolidate the individual university's statements along with the other statements, MD&A, and notes to OSRAP.

8) Q. Inventory of materials and supplies are currently accounted for by the purchase method as they are expensed when purchased. Will colleges continue to account for inventories using this method or will they use the consumption method and expense when consumed?

A. The consumption method should be used if inventory of materials and supplies are material.

9) Q. Is everyone in the University of Louisiana System going to use the alternative method to calculate scholarship discounts and allowances?

A. Yes, NACUBO Advisory Report 2000-05, pages 22-23 provides more information on the alternative method.

10) Q. Fee exemptions for faculty and staff are to be classified as compensation expenses, rather than scholarship expenses; therefore, they did not get included in the scholarship discount allowance. What about fee exemptions for dependents of faculty and staff (compensation expense or scholarship expense)?

A. Fee exemptions for dependents of faculty and staff are to be treated as compensation expense except when preparing federal reports. NACUBO Advisory Report 2000-05 states that tuition remission policies developed as employee benefits should be accounted for as compensation expense and not as a scholarship allowance to tuition because the tuition remission was given in exchange for services. Governmental grants and/or other programs intended to help students defray their educational expenses should be handled in accordance with guidance issued by GASB for public institutions. The current GASB standard is that Pell Grants meet the definition of current restricted grant revenue. Thus, in public institutions the amount of a Pell Grant used to satisfy a student's fees and charges is a scholarship allowance; any excess aid disbursed to the student is a student aid expense.

11) Q. Will the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) be displayed by functional or natural classification?

A. SRECNA should be displayed using the NACUBO functional classification.

12) Q. When is the deadline for submitting Annual Fiscal Reports to OSRAP?

A. September 16, 2002 for all systems except the University of Louisiana System. For the universities under ULS, reports must be in OSRAP no later than the morning of September 9, 2002.

13) Q. Are accounts created to service student self-assessed fees to be considered as fiduciary in nature and accounted for as agency funds, or are these restricted funds?

A. These accounts are considered restricted funds.

14) Q. Should payroll liability accounts such as federal income tax withheld, annuities, credit union dues, etc. be adjusted to the "payments for benefits" line under "Cash Flow form Operating Activities" when they have no effect on income or expense? Should Payroll Liability accounts such as retirements, social security, group insurance, etc., where they partially affect expenditures, be adjusted to the "payments for benefits" line in total (100%) or only to the extent they affect expenditures?

A. Payroll liability accounts such as federal income tax withheld, annuities, credit union dues, etc. would be reported under "payments to employees". The State's portion or the university's portion of payroll liability accounts such as retirements, social security, group insurance, etc. would be reported under "payments to benefits". Some accounts contain employer and employee shares, such as retirement or group insurance accounts and will need to be split between "payments to employees" and "payments for benefits" on the Cash Flow Statement.

15) Q. Should GASB 35 adjustments affect the universities budget?

A. No, GASB 35 adjustments should not be considered budgetary issues and should not be reflected on the budgetary schedules shown in the AFR.

16. Q. How should the current portion of compensated absences be calculated and reported on the Statement of Net Assets (SNA)?

A. (This answer will amend the statewide policy in the issue paper posted on OSRAP's website under GASB 34 entitled "Compensated Absences – Short and Long-term Liability.")

Use the following methodology for determining the current portion of compensated absences liability:

For fiscal year 2000, 2001, and 2002, determine the amount of leave actually paid to employees who terminated employment or retired. Add these amounts and divide by 3 to obtain an average. The resulting amount is an estimate of the current portion of compensated absences liability. This amount should be reported in the current liability section of the Statement of Net Assets for fiscal year 2002.

The amount calculated above would then be subtracted from the total compensated absences at the end of 2002 and the difference would be the non-current portion of compensated absences.

The averaging method should be based on a maximum of 3 years starting in fiscal year 2002. This will become a rolling 3-year average in subsequent years as you drop off the last year (i.e., 2000) and add the next year (i.e., 2003). For your conversion in 2001, the use of 2 year averaging is acceptable.

17.) Q. Investments held by foundations – Last year investment income was recognized as Endowment Income on the Income Statement. Where should investment income be recognized this year?

A. Investment income should be reported as “other nonoperating revenue” on the Statement of Revenues, Expenses, and Changes in Net Assets.

18.) Q. Last year the expenditure for compensated absences was reported in “Compensated Absences Expenditures”. Where should it be reported this year?

A. The expenditure for compensated absences should be reported as “other operating expenses” on the Statement of Revenues, Expenses, and Changes in Net Assets.

19.) Q. Are library books capitalized? If so, what is the policy for capitalizing library books?

A. Only those collections, regardless of age, with a total acquisition value of \$5,000,000 or more will be capitalized and depreciated.

The first step is to establish the initial value of the collection of the library. Second, establish what was purchased for the collection in each of the last five years. Third, determine the average value of a book in the collection. From conversations with librarians across the state, this seems to be a readily available figure.

For fiscal year 2002, start with the value of the library as of June 30th as determined above. Then add purchases for fiscal year 2002 and deduct the depreciation of the current year. Depreciation will be the sum of 1/5 of the value of purchases in each of the past 5 years.

After the above calculations are made, the library book inventory balance should be adjusted for shrinkage. Shrinkage is defined as collection inventory that was either

stolen or deemed obsolete or unusable and destroyed by the library. The number of volumes should be multiplied by the average value per book in the collection. The shrinkage should be based on the annual inventory of the collection. Accumulated depreciation need not be adjusted for shrinkage.

Finally, the net value of the library collection (the total value of the collection less accumulated depreciation) must equal the value of purchases made in the previous five years less depreciation. See below for a sample calculation:

June 30, 2001 value of the collection:	\$5,000,000	# of books in library at 6/30/01:	200,000
Accumulated depreciation at 6/30/01:	<u>(4,020,000)</u>	# of books purchased:	<u>20,000</u>
Balance at 6/30/01	980,000(1)	# of books in library at 6/30/02:	220,000
Purchases during FY 2002:	600,000	Average value of each book:	
Depreciation expense for FY 2002:	<u>(520,000)(3)</u>	\$5,600,000/220,000 =	\$25.45
Balance at 6/30/02	\$1,060,000 (2)	# of books that were lost, stolen or became obsolete in FY 2002:	1,000

Year	Purchases	Undepreciated Value at 6/30/01	FY 2002 Depreciation	Undepreciated Value at 6/30/02
2002	\$600,000		\$120,000	\$480,000 4 yrs. left
2001	500,000	\$400,000 4 yrs. left	100,000	300,000 3 yrs. left
2000	400,000	240,000 3 yrs. left	80,000	160,000 2 yrs. left
1999	600,000	240,000 2 yrs. left	120,000	120,000 1 yr. left
1998	500,000	100,000 1 yr. left	100,000	0
1997	450,000	0	0	0
		<u>\$980,000</u>	<u>\$520,000</u>	<u>\$1,060,000</u>
		(1)	(3)	(2)

Recap (at 6/30/02):

Cost of collection:	\$5,600,000
Shrinkage	<u>(25,450) [1,000 X \$25.45]</u>
Revised cost of collection	5,574,550
Accumulated Depreciation	<u>(4,540,000)</u>
Balance	\$1,034,550

20.) Q. What entry is made to record “reserves for reimbursement contracts”? (Last year, the entry was a debit to “prepayments” and a credit to “reserves for debt service” on the balance sheet. The current year payment of reserves was reported as “Mandatory transfers – principal and interest”).

A. “Reserves for reimbursement contracts” should now only affect the balance sheet. The following entry should be made to record “reserves for reimbursement contracts”:

Unrestricted  
 Restricted - expendable  
 (Debit “unrestricted net assets” and “credit restricted-expendable net assets”)

To record the current year payment of “reserves for reimbursements contracts”, the following entry should be made:

Deferred charges and prepaid expenses

## Cash

(Debit “deferred charges and prepaid expenses” and credit “cash”)

21.) Q. Should construction-in-progress be included on the college’s financial statements for new buildings being constructed on campus?

A. Yes, construction-in-progress should be recognized and recorded. Debit “capital assets” on the Statement of Net Assets, and credit “capital appropriation” on the Statement of Revenue, Expenses, and Changes in Net Assets. Also, record construction-in-progress in Note E under “Capital assets not being depreciated - construction-in-progress”. If the construction is handled by Facility Planning, the information may be obtained from their quarterly report.

22.) Q. What assets and liabilities should be considered current and which ones should be considered noncurrent.

A. See the issue paper below:

### **Current vs. Noncurrent Assets and Liabilities**

#### **Issue**

To set a policy to determine what assets and liabilities should be considered current and noncurrent, so the colleges and universities will be consistent in their classifications.

#### **Background**

Due to the implementation of GASB 34, BTA’s are required to use the classified approach when preparing their Statement of Net Assets. The classified approach requires assets and liabilities to be presented either as current or noncurrent. For accounting purposes, the term *current assets* is used to designate cash and other assets or resources commonly identified as those reasonably expected to be converted into cash, sold, or consumed either in one year or in the operating cycle, whichever is longer. However, there are other factors to consider in determining whether certain assets and liabilities are current or noncurrent.

The term *current liabilities* is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. As a balance-sheet category, the classification is intended to include obligations or items which have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in the production of goods or in providing services to be offered for sale.

## **Requirements**

Q. 209 of GASB's Guide to Implementation of GASB 34 reads, "Paragraph 99 requires assets to be reported separately in the proprietary fund statement of net assets. How should restricted assets be reported under the classified approach?"

A. Restricted assets should often be reported as "noncurrent" assets. Accounting Research Bulleting (ARB) 43, Chapter 3, paragraph 6a, excludes from current assets "cash and claims to cash which are restricted as to withdrawal or use for other than current operation, are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated (note 1) for the liquidation of long-term debts." Restricted assets that will be used in current operations-certain grants and contract revenues, for example-should be reported as current assets.

ARB #43 goes on to state, "This concept of the nature of current assets contemplates the exclusion from that classification of such resources as: (a) cash and claims to cash which are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of noncurrent assets, or are segregated for the liquidation of long-term debts."

## **Recommendations**

We recommend that non-operating fund (plant fund and endowment fund) assets be considered noncurrent assets. For example, cash and cash equivalents in the plant funds would be considered noncurrent assets and would be included in the "restricted cash and cash equivalents" line in the noncurrent asset section. Also, Due from the state in the retirement of indebtedness fund (plant fund) would be considered noncurrent and it should be included in "Other Noncurrent Assets" on the Statement of Net Assets.

The current operating funds (the general fund, auxiliary funds, the student loan fund, agency funds, and the restricted fund under current operations) assets should be viewed in the traditional way. Those assets which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business or within one year, whichever is longer should be considered current. Those assets not reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of business or within one year would be considered noncurrent.

Liabilities in the general, restricted, auxiliary, loan, or agency funds that are not reported in other more specific liability categories could be reported on either the "Other noncurrent liabilities" line or the "Other current liabilities" line, depending on the specific nature of and the circumstances related to the liabilities involved.

All liabilities in the endowment and plant funds not reported in other more specific noncurrent liability categories should be reported on the "Other noncurrent liabilities" line.

## Footnotes

1) Funds that are to be used in the near future for the liquidation of long-term debts, payments to sinking funds, or for similar purposes should also, under this concept, be excluded from current assets. However, where such funds are considered to offset maturing debt which has properly been set up as a current

23). Q. What entry do I record when the university issues bonds to construct a building, but Facility Planning is handling the construction?

A. The university can report this a couple of different ways, depending on who has authority over the proceeds of the bond issue. (See below)

Scenario #1 – If the university has control over the bank account holding the bond proceeds and signs off on the expenditures, then the university should report the proceeds of the bond issue as a debit to “investments” and a credit to “bonds payable”. As the building is being constructed the following entry would be made at the end of the fiscal year:

(debit)	Construction-in-Progress (CIP)
(credit)	Investments

The university should use the Quarterly Report at June 30, 20xx to determine the amount to debit CIP or the university may use its bank statements to make the determination if the bank account is only used for revenues and expenses relating to the new building.

Scenario #2 - If the university does not have control over the proceeds of the bond issue and does not have authority over the bank account holding these proceeds, the university should report the proceeds of the bond issue as a debit to “deferred charges and prepaid expenses” and credit to “bonds payable”. As the building is being constructed the following entry would be made at the end of the fiscal year:

(debit)	Construction-in-Progress
(credit)	Deferred Charges and Prepaid Expenses

As the university does not receive copies of the bank account holding the bond proceeds, they should use the Quarterly Report at June 30, 20xx to determine the amount to debit CIP.

24). Q. Should I report capital leases net of depreciation on the Statement of Net Assets?

A. Yes, capital leases should be reported net of depreciation on the Statement of Net Assets. A line requesting accumulated depreciation for capital leases was inadvertently omitted from Note P (Leases) in the Fiscal Year 2002 Annual Financial Report. Colleges should include a line in Note P stating the accumulated depreciation for office space and equipment.